THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY

OF

MATTHEW P. SCHELLINGER II

OCTOBER 12, 2017

DOCKET NO. 2017-5-G

Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of South Carolina Electric & Gas Company

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MATTHEW P. SCHELLINGER II

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2017-5-G

IN RE: ANNUAL REVIEW OF PURCHASED GAS ADJUSTMENT AND GAS PURCHASING POLICIES OF SOUTH CAROLINA ELECTRIC & GAS COMPANY

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Matthew P. Schellinger II. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff ("ORS") in the Utility Rates and Services Division as a Regulatory Analyst.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree with a major in Accounting from the University of South Florida in 2012. I received a Master of Business Administration degree with a focus in Management and Strategy from Western Governors University in 2016. From 2007 to 2013, I was employed as a controller for an insurance agency. In that capacity, I performed general corporate accounting functions on a daily and monthly basis. In February 2013, I began my employment with ORS as an Auditor. In May 2016, I joined the Utility Rates and Services Division as a Regulatory Analyst. I have previously testified before the Public Service Commission of South Carolina ("Commission") on natural gas, water, and wastewater related matters.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. My testimony will present ORS's review findings related to South Carolina Electric & Gas Company's ("SCE&G" or "Company"):

1) natural gas purchasing policies for the twelve (12) month period of August 2016 through July 2017 ("Review Period");
2) ability to serve the firm customers during the Review Period and for the upcoming winter season;
3) recovery of its purchased gas cost in accordance with the Commission approved purchased gas adjustment ("PGA") tariff or gas cost recovery mechanism; and
4) updated calculation of the demand cost of gas ("DCOG") allocation factors.

Q. DID ORS REVIEW THE COMPANY'S CONSTRUCTION AND MAINTENANCE PROJECTS DURING THE REVIEW PERIOD?

A. Yes. ORS reviewed the Company's construction and maintenance projects and found the projects promote the safe and reliable delivery of natural gas to customers. Specifically, the projects outlined in Company witness Howard's testimony provide additional gas infrastructure and aid in expanding the natural gas distribution system.

In addition, SCE&G is required to file new construction notices with the Commission for any project expected to exceed $500,000 pursuant to S.C. Code Ann. Reg. 103-412.2.7(A) (2012). During the Review Period, the Company filed sixteen (16) such notices under Docket No. 2006-244-G.

These projects included, but were not limited to:

- Construction of a natural gas metering and regulating station in Beech Island to eliminate the current three (3) pressure cut system, eliminate above ground valve leaks, provide gas warming, and replace an underground station inlet;
- Construction of steel main in Beaufort in coordination with the SC Department of Transportation road widening and drainage improvements along Boundary Street;
- Upgrades to Bushy Park including replacement of high expansion foam system, Control System, and a recycle compressor motor starter in Goose Creek;
- Construction of steel distribution pressure gas main during road widening in Charleston;
- Construction of plastic distribution gas main in the following areas:
    - Johns Island to serve St. Johns Lakes and future developments on Johns Island;
    - Mount Pleasant to serve The Oaks residential development, the East Cooper Montessori School, the Myrick Road Townhome development as well as multiple future commercial conversions;
    - Florence to serve future customers in the area and to strengthen the existing system;
    - Murrells Inlet area to serve future customers;
    - Sumter constructed to serve anticipated load; and
    - Conway to serve residential customers in the Wild Wing development.
- Construction of steel high pressure gas mains in the following areas:

- Ridgeville to serve the new Volvo project and provide capacity to serve additional load within the Town and the Camp Hall Industrial Park;
- Bluffton to serve anticipated load in the Riverport development;
- Conway to serve additional load to Myrtle Beach; and
- Summerville to service the East Edisto and Pine Hill developments.

ORS's primary review involved ensuring the projects are being constructed in a safe and reliable manner. ORS's Pipeline Safety team inspects and monitors construction projects. Through extensive interviews and discussions with the ORS Pipeline Safety team, ORS determined the Company constructed new projects in a safe and reliable manner and filed construction notices in compliance with S.C. Code Ann. Reg. 103-412.2.7(A) (2012). ORS did not review these projects from a reasonableness or cost perspective as part of this docket, such review is completed as part of the annual review under the Rate Stabilization Act.

Q. DID ORS REVIEW THE COMPANY'S ABILITY TO MANAGE ITS CAPACITY AND SUPPLY DURING THE REVIEW PERIOD?

A. Yes. During the Review Period, the Company purchased and managed its transportation capacity contracts with Southern Natural Gas Company ("Southern"), Transcontinental Gas Pipeline Corporation ("Transco") and Dominion Energy Carolina Gas Transmission Corporation ("DECGT"). The Company also managed the sharing of interstate transportation capacity between its gas and electric departments pursuant to a Memorandum of Understanding which was approved by the Commission in Order No. 2015-844. The Company purchased and managed its interstate underground natural gas storage and off-system Liquefied Natural Gas ("LNG") capacity assets on the Southern and Transco interstate systems. In addition, the Company managed and operated its two (2) Company-owned LNG facilities. These Company capacity assets are discussed in Company witness Jackson's direct testimony and are shown in Exhibits RMJ-1 and RMJ-3.

SCE&G was responsible for purchasing and managing natural gas commodity supplies from multiple sources for the Company's three (3) gas supply options of 1) wellhead gas supply; 2) interstate storage; and 3) on-system LNG storage. The Company's supply portfolio and the use of the various services within the portfolio are also discussed in the direct testimony of Company witness Jackson.

ORS reviewed the Company's capacity and supply asset management during the Review Period. ORS found that SCE&G managed its capacity assets for interstate pipeline transportation, interstate pipeline storage, and its LNG facilities as well as purchased natural gas commodity supplies to meet the customers' needs and provide reliable firm service at reasonable costs.

Specifically, ORS reviewed a sample of the Company's gas purchases during the Review Period. ORS compared the individual sampled gas purchases to the appropriate New York Mercantile Exchange ("NYMEX") indicators on the spot market or on a month ahead basis in order to determine if the specific gas costs the Company contracted at were within a reasonable band at the given time. ORS did not make an adjustment to the gas costs paid by the Company for any of the sampled purchases, and determined the sampled purchases were reasonable in comparison to the market costs for the given period.

Additionally, ORS reviewed a sample of the Company's capacity contracts. These contracts are long-term and the prices paid by the Company to the major interstate pipelines are regulated by Federal Energy Regulatory Commission ("FERC") tariff. ORS confirmed the contract terms for the Company's capacity contracts reflected prices consistent with FERC tariff levels for a sample of the gas capacity contracts in place.

Q. DID THE COMPANY MINIMIZE GAS INTERRUPTIONS DURING THE 2016 – 2017 WINTER SEASON?

A. Yes. During the Review Period, the Company experienced two (2) instances of system-wide gas interruption as detailed below:

- January 6, 2017: Four (4) day interruption was initiated for large industrial customers on interruptible rate schedules 6, 7, 8, and 9. On January 7, 2017, this interruption was expanded to commercial and industrial customers on interruptible rate schedules 3C, 3D, 3E, and 3F. These customer classes have alternative fuels available. The average temperature in Columbia during the four (4) days of this interruption was 35.5°F compared to a normal average of 45°F.
- March 15, 2017: Two (2) day interruption was initiated for large industrial customers on interruptible rate schedule 9. This customer class has alternative fuel available. The average temperature in Columbia during the two (2) days of this interruption was 39.5°F compared to a normal average of 56.5°F.

Q. DID ORS REVIEW THE COMPANY'S ABILITY TO MEET FIRM CUSTOMERS' GAS REQUIREMENTS DURING THE 2017-2018 WINTER SEASON?

A. Yes. ORS reviewed the Company's capacity contracts to determine if there was sufficient capacity contracted to meet firm customer's peak design day requirements. Additionally, ORS reviewed the Company's commodity supply contracts to determine if the Company would have an adequate source of viable gas suppliers from whom to purchase both monthly gas supply as well as spot gas. Finally, ORS reviewed the Company's current distribution system to ensure the Company will be able to deliver gas within its system to all service areas. ORS had discussions with the Company about its natural gas assets dedicated to meet customers' needs as reflected on Company witness Jackson's Exhibit RMJ-3. ORS concluded the Company has prepared a capacity and supply asset portfolio to sufficiently and reliably meet the 2017-2018 winter season's projected firm customers' requirements.

Q. WHAT IS THE SYSTEM-WIDE RESERVE CAPACITY FOR THE COMPANY?

A. The Company's system-wide reserve capacity during the last five winter seasons:

Reserve Margin	Winter Season
11.3%	2012-2013
7.21%	2013-2014
8.83%	2014-2015
6.81%	2015-2016
5.49%	2016-2017
2.81%	November – December 2017

The Company is projecting an increase in the system-wide reserve capacity margin for January through March 2018. The capacity margin will increase to 5.48% due the addition of 50,000 dekatherms per day of new pipeline capacity on DECGT. The current projected in-service date for the pipeline is December 23, 2017. The original expected in-service date of this pipeline was November 1, 2017.

Q. IS THE COMPANY'S RESERVE CAPACITY MARGIN SUFFICIENT TO PROVIDE RELIABLE SERVICE TO MEET CUSTOMER REQUIREMENTS ON PEAK DAYS?

A. Yes. However, ORS is concerned that steady residential customer growth in SCE&G service territory and the increased reliance on natural gas for electric generation could impact capacity reserves and cause service reliability issues on peak demand days. In addition, as identified by Company witness Jackson on pages 7 through 10 of her testimony, the Company is unable to continue to rely on segmentation to meet its design day customer needs. Going forward, system growth will be reviewed by the Company based on specific area points versus system-wide which could identify service regions within the system with a much lower reserve capacity margin. The electric utility industry has adopted certain reserve capacity margin benchmarks, however, the natural gas utility industry does not use a similar benchmark. ORS will continue to monitor SCE&G's ability to serve both its firm and interruptible customers in the upcoming winter seasons.

Q. PLEASE DESCRIBE THE COMPANY'S GAS COST RECOVERY PROCEDURES APPROVED BY THE COMMISSION.

A. The Commission approved SCE&G's gas cost recovery mechanism in Order No. 2005-653. In that Order, a two-part cost of gas recovery mechanism was approved. That mechanism involves: 1) a Firm Commodity Benchmark component which is calculated to recover the commodity cost of gas purchased; and 2) a demand component which is calculated to recover the associated DCOG. The demand component charge includes the fixed charges by upstream pipelines for transportation and storage services. The current

"Purchased Gas Adjustment, Firm Gas Only" tariff sheet was approved by the Commission in Order No. 2009-910 and became effective in January 2010.

Q. PLEASE DISCUSS THE OPERATION OF THE TWO-PART COST OF GAS RECOVERY MECHANISM.

A. All firm customers are charged the same Firm Commodity Benchmark cost. The demand charge cost component is calculated for each customer class (Residential, Small/Medium General Service, and Large General Service) based on an equal (50%/50%) weighting of peak design day projected demand and annual forecast sales volumes. In computing the demand charge component for the firm customers, seventy-five percent (75%) of the revenue generated from capacity release of upstream assets, as well as all net revenues from interruptible sales and transportation service are credited against the firm demand charges.

Added together, these two (2) components, (i.e. the commodity and demand costs) equal the PGA factor for each firm customer class.

Q. DURING THE REVIEW PERIOD, DID SCE&G FILE MONTHLY NOTIFICATIONS OF THE FIRM PGA FACTORS RESULTING FROM THE TWELVE (12) MONTH ROLLING FORECAST OF GAS COSTS WITH THE COMMISSION AND ORS?

A. Yes. Under the provisions of Order No. 2006-679, SCE&G is allowed to make monthly adjustments in its PGA factors after the Company completes an updated monthly forecast to determine if there is a "material difference" for any customer class equal to or greater than $0.01 per therm. However, in Commission Order No. 2009-910, the Commission found that the monthly adjustment procedure for the total cost of gas factors as adopted in the above-referenced Order should be maintained subject to the following modifications:

a) The amount designated as a "material difference" is increased from an amount "equal to or greater than $0.01 per therm" to an "amount greater than $0.04 per therm;"

b) If the calculated difference is greater than $0.04 per therm, then the Company is required to adjust its rates;

c) If the calculated difference is less than or equal to $0.04 per therm, then the Company has the discretion to adjust rates if it believes there would be a reasonable impact to customer bills; and

d) The criteria set forth in (a) and (b) are to be applied by customer class and not by component within customer class.

In this Review Period, the Company filed monthly notifications with the Commission and ORS for each of the twelve (12) months, four (4) of which included changes in its PGA factor. ORS found the Company adjusted the PGA factors during the Review Period in a manner consistent with the Company's current Commission approved PGA tariff and Commission Orders.

Q. DESCRIBE ORS'S REVIEW AND FINDINGS REGARDING THE COMPANY'S RECOVERY OF PURCHASED GAS COSTS FOR THE REVIEW PERIOD?

A. ORS reviews the Company's monthly filings as submitted to the Commission regardless of whether there is a change in the cost of gas. The ORS review includes an examination of the Company's expected weather normalized sales at NYMEX futures prices by customer class for the next twelve (12) months and weather normalized demand cost recovery by customer class over the next twelve (12) months. If the combined cost of gas meets the Material Difference threshold of $0.04 per therm, ORS expects the new cost of gas factors required to recover the Company's current over or under collection will be put into effect for the following month.

ORS found that SCE&G administered and recovered its gas costs during the Review Period in a manner consistent with the Company's current Commission approved PGA tariff and Commission Orders.

Q. DOES ORS AGREE WITH THE COMPANY'S PROPOSED DCOG ALLOCATION FACTORS UPDATED FOR THE COMPANY'S CURRENT FORECAST AND ITS IMPLEMENTATION EFFECTIVE FOR THE FIRST BILLING CYCLE IN JANUARY 2018?

A. Yes. The Company's DCOG factors are developed to allocate demand costs between customer classes in proportion to the impact on demand requirements for SCE&G's natural gas distribution system. ORS reviewed the calculations of the DCOG factors provided in the direct testimony of Company witness Robinson which are updated for the Company's current forecast of annual sales and peak design day demand for the upcoming winter season. ORS agrees with the calculation of the proposed DCOG factors and with the Company's proposal to implement these DCOG allocation factors effective for the first billing cycle in January 2018.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, this concludes my testimony.